

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997 )

RECEIVED  
FEB 10 1998  
Docket No. R97-1

RESPONSE OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,  
VAL-PAK DEALERS' ASSOCIATION, INC., AND  
CAROL WRIGHT PROMOTIONS, INC. TO FIRST SET OF INTERROGATORIES  
OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS/VP-CW-T1-1-2)  
(February 10, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., d/b/a "Cox Direct," hereby provide the responses of witness John Haldi to the following interrogatories of the Association of Alternate Postal Systems: AAPS/VP-CW-T1-1-2, served on January 27, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

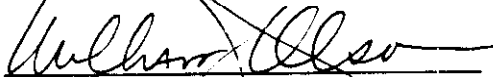


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Carol Wright Promotions, Inc.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

February 10, 1998

Response of Dr. John Haldi to AAPS/VP-CW-T1-1  
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**AAPS/VP-CW-T1-1.** At page 33, line 18, through page 34, line 2, you testify that because there are substantial alternatives available to standard A ECR MAIL, the Postal Reorganization Act would support a lower cost coverage.

- (a) Would it therefore also be your opinion that where there are few alternatives, or no alternatives, this rate standard would support a higher cost coverage?
- (b) Please identify the most important authorities that support your interpretation of Section 3622(b)(5).

**Response:**

(a)-(b) Actually, the footnote at the end of the sentence of my testimony cited in your question refers to witness O'Hara's testimony (USPS-T-30) as citing Section 3622(b)(5) as supporting a lower cost coverage for Standard A ECR. As I now review witness O'Hara's testimony, I see that his application of Criterion 5 was more ambiguous than I recalled when I prepared my testimony, *i.e.*, he does not specifically cite Criterion 5 as supporting a lower cost coverage. Instead, he states that "most of the factors considered above would indicate a cost coverage lower than that actually proposed." However, I also testify that "[h]is analysis of the noncost criteria echoed witness Moeller's analysis in Docket No. MC95-1." Witness Moeller stated that:

The availability of alternatives (criterion 5) would argue for a lower cost coverage since carrier route mail, by virtue of its high-density component, has more options than other mail in the Standard class. Alternate delivery systems and newspaper inserts offer similar means of distribution. Other local media are also available as alternatives to mail. [Docket No. MC95-1, USPS-T-18, p. 7, ll. 21-25.]

Response of Dr. John Haldi to AAPS/VP-CW-T1-2  
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**AAPS/VP/CW-T1-2.** Given your testimony at page 16 that the Postal Service has “failed to present any reliable evidence” on the issue of which ECR costs are pound-related and which are piece-related, and your testimony at page 52 that the weight-cost relationship “is not know with any degree of certainty,” please explain in greater detail why you have decided to “adopt the Postal Service’s proposed rate of \$0.53 per pound” rather than adopting the pound rate last approved by the Postal Rate Commission. In this answer, please explain how it is “conservative,” as you state at page D-11, to adopt Witness Moller’s [sic] proposed pound rates rather than those last approved by the Commission.

**Response:**

At page 17 of my testimony, I describe the assumption in my Case I as representing “moderately high” weight-related costs, and the assumption in my Case II as representing “moderately low” weight-related costs. My recommendation that the Commission adopt “moderately high” weight-related costs, as opposed to “moderately low” weight-related costs is, in my opinion, a conservative recommendation. That is the short answer to your question. There is more, however, as explained below.

A strength of the bottom-up cost analysis developed in my testimony is that it enables various things to be seen and examined in a different light, including the issue of the impact of weight on cost. Note that my methodology does not redistribute costs between letters and nonletters; *i.e.*, the total cost of nonletters remains fixed. Consequently, increasing the portion of cost assigned to weight will decrease the per-piece cost of nonletters — and vice versa — but will not affect the unit cost of letters. With this in mind, compare the unit cost in Table A-13 (letters), Table A-18 (nonletters, Case I), and Table A-24 (nonletters, Case II). To take one example, the unit costs of saturation letters and piece-rated nonletters (without contingency), DDU entry, are as follows:

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	<u>Unit Cost (cents)</u>
Letters	3.4876
Nonletters	
Case I	3.0065
Case II	3.6266

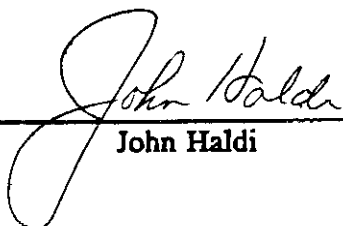
The same comparison of unit costs for saturation mail with “no destination entry” is as follows:

	<u>Unit Cost (cents)</u>
Letters	4.2003
Nonletters	
Case I	4.1696
Case II	4.7897

As the above comparisons show, the “moderately high” assumption for weight-related cost in Case I reduces the unit cost of saturation nonletters below the unit cost of letters, regardless of entry point. Since letters everywhere cost less to handle than nonletters, this result is already hard to swallow. Using even higher pound rates, such as those last approved by the Commission, would cause a further reduction in the unit cost of nonletters below the corresponding cost of letters. In light of these considerations, I consider witness Moeller’s recommended pound rate to be conservative.

## DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answer is true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
John Haldi

Dated: February 10, 1998